MINISTRY OF
ENERGY

# Funding Options for OEB Regulated Price Plan Pilots

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# Context

- In 2013, the OEB initiated a review of the Regulated Price Plan (RPP) which undertook research and analysis on the effects of different time-of-use (TOU) pricing structures, including jurisdictional and consumer research.
- Following completion of this research, the OEB released its RPP Roadmap in November 2015, a five-point plan to redesign the RPP to respond to policy objectives, improve system efficiency and give consumers greater control.
  - The plan is proposed to be implemented over the next three to five years.
- One of the key elements of the Roadmap is implementing pilot programs to test different TOU pricing plan options and non-pricing pilots for residential and small business customers.
- In order to fund the pilots, the OEB is requesting that the Minister of Energy issue a Directive to the OEB to allow it to recover the costs of the pilots through the Global Adjustment Mechanism (GAM).
- The OEB's 2016-2019 Business Plan indicated that the OEB was working with LDCs to develop pricing and non-price pilots. The 2014/2017 Business Plan identifies residential rate design and alternate TOU pricing regimes as priorities over the period of the plan.

# Issue and Purpose

**Issue**

- In July 2016, the OEB issued a call for Local Distribution Companies (LDCs) to submit applications to conduct pilots.
    - The OEB is currently reviewing 7 pilot applications covering 13 LDCs.
- The OEB committed in its RPP Guidance document to have pilots approved and in market no later than May 1, 2017. Pilot projects will run for a 12 month period and are to be completed by December 1, 2018.
- OEB staff indicate that the budget for the pilots is expected to be ~$30M.
- Certain LDCs that submitted pilot applications, including Hydro One, have indicated to the OEB that they will withdraw their applications if ratepayers in their service territories are expected to cover the full cost of the pilots.
- The cost to an average household if the pilot costs were spread across only 13 LDCs would be approximately $9 per customer for one year.
- These LDCs argue that the pilot costs should be spread out across all Ontario ratepayers given that the results are expected to inform the OEB's future decisions about changes to the TOU pricing structure, which would provide a benefit to all distribution-connected customers.

**Purpose**

- To present options and seek a decision on how to fund the OEB's RPP TOU pilots.

# Option 1: Minster to issue a Directive to OEB to Recover Costs of RPP Pilots from GAM (OEB Recommended)

**Description**

- In order to recover the costs of the RPP pilots across all ratepayers (distribution and transmission-connected), the Minister would issue a Directive to the OEB, approved by the Lieutenant Governor in Council (LGIC), under Section 27.2 of the *Ontario Energy Board Act, 1998* (OEBA), to allow the OEB to amend the licenses of LDCs, if selected by the OEB, to make electricity price or non-price pilot programs approved by the OEB available to customers in their licensed service areas.

**Considerations**

- Would allow the OEB to recover the costs of its RPP pilots through GAM, spreading the costs across all electricity ratepayers (transmission and distribution-connected). It is estimated that costs to an average household would be approximately $2 for one year.
- Would address LDC concern that the costs of the pilots should not be funded only through participating LDC distribution rates.
- Stakeholders may expect an engagement process (e.g. Environmental Registry (ER) posting) prior to the Ministry issuing such a directive.
- Under section 15 of the *Environmental Bill of Rights, 1993* prescribed ministries are required to post notices on the Environmental Registry if the Minister considers the proposal under consideration could have a significant effect on the environment.
- Not posting a proposal to fund pilots from GAM on the ER may be considered low-risk since:
    - The Environmental Commissioner reported on the OEB's plans to conduct RPP TOU pilots in the recent 2015/2016 Conservation Report, and they look favourably on the initiative.
    - The scope of the proposal is limited to pilots undertaken by LDCs on a voluntary basis.

# Option 1: Minster to issue a Directive to OEB to Recover Costs of RPP Pilots from GAM (cont'd)

**Considerations (cont'd)**

- If an ER posting is undertaken, the Directive could potentially be brought forward to Legislation and Regulations Committee (LRC) in Winter 2017, delaying the OEB's planned timing for LDC pilot implementation.
- If an ER posting is not undertaken (at Minister's discretion), the proposal could be brought forward to LRC in December 2016 along with the proposed 7pm – 7am regulation amendment.
- Accessing GAM funds for this purpose may be perceived as an inappropriate use of the funds. The Minister's Directive being requested would achieve objectives largely external to the current Conservation First Framework, which this section of the legislation enables.
    - E.g. LDCs have an energy savings target, no longer a peak demand reduction target (as was the case under the 2011 to 2014 conservation framework), and the focus of the pilots is on reducing peak demand.
- Issuing a Minister's Directive would place responsibility on the Ministry of Energy to justify the change and may require that it considered value for money for associated ratepayer increases, which it does not have sufficient evidence to demonstrate at this time.
    - This is mitigated by the fact that the funding will be used for pilot projects that will inform future TOU price plans by the OEB.
- The Legislation and Regulations Approval Form requires that ENERGY outline the quantitative costs and benefits of the proposal. The OEB has indicated to the Ministry that it has not conducted a cost-benefit analysis on the proposed pilots.

# Option 2: OEB Utilizes Existing Authority to Recover Costs of RPP Pilots

**Description**

- In order to recover the costs of the RPP pilots across all distribution-connected ratepayers, the OEB would apply to Treasury Board for approval to undertake procurements for the proposed pilots.
- The OEB would also propose the costs of the pilots as part of its annual business plan/operating budget to the Minister (next plan due in January 2017).
- Once the procurements are approved by Treasury Board and the business plan is approved by the Minister of Energy, the OEB would undertake its procurement process and enter into procurement contracts with LDCs to deliver the pilots and recover the costs of the procurements using its existing authority under Section 26(1) of the OEBA.
- Section 26 (1) of the OEBA allows the OEB to recover costs from all distribution-connected customers for all expenses it incurs and expenditures it makes.
- In the OEB's Cost Assessment Model (2016) the direct costs that can be recovered using Section 26 are outlined, including costs for "Specific project costs such as consultants and stakeholder consultation costs" (p. 6). It also permits the OEB to recover costs from particular payor classes that the costs can be reasonably attributed to (e.g. electricity distributors). The OEB has used this section to recover the costs of studies in the past.

**Considerations**

- Would address LDC concerns that the costs of the pilots should not be funded only through participating LDC distribution rates.
- Would allow the OEB to recover the costs of its RPP pilots, spreading the costs across all distribution -connected ratepayers. It is estimated that costs to an average household would be approximately $4 for one year (because the OEB is moving towards a fixed distribution charge, low volume users (typical residential customer) will pay more than high volume users than they would under Option 1).

# Option 2: OEB Utilizes Existing Authority to Recover Costs of RPP Pilots (cont'd)

**Considerations (cont'd)**

- The OEB has indicated that this approach is within the existing authority (s. 26 (1) of the OEBA) and could be used to fund the pilot projects, however it is not the OEB's preferred option:
  - Would almost double OEB's operating budget (projected annual budget from 2014 to 2017 is ~$35M). Adding the costs of the pilots (~$30M) would increase the budget for one year up to $65M. For perspective, IESO has an annual operating budget of over $220M.
  - Due to the cost of the pilots (> $2 million) the OEB would need to seek approval from Treasury Board. Ministry staff would review materials but the submission would be led by the OEB.
    - This is the approach the OEB used to obtain approval to undertake the Ontario Electricity Support Program procurement.
    - Expected to take 6 to 8 weeks, potentially delaying the start of the pilots.
    - The OEB may need to restart the process of procuring pilots to follow their internal procurement processes, potentially delaying the start of the pilots. LDCs have followed an application process set out by the OEB but the OEB states this process is not sufficiently similar to the procurement process.
- According to the OEB Cost Assessment Model, which is the methodology established by the OEB to apportion its costs to the persons or classes of persons who pay costs under section 26(1) of the OEBA, the OEB apportions its indirect costs based on the division of its direct costs. Funding the pilots through direct costs to LDCs would increase the proportion of indirect costs that LDCs would be allocated.
  - The OEB could make a decision to make an exception to this accounting practice for the purposes of this project.
- There could be concerns raised by the Auditor General (AG) questioning the appropriateness of this method (i.e. if the pilot expenses are truly an expense of the OEB), however, if GAM is used to fund the pilots, the AG may raise concerns or questions about the appropriateness of using GAM funding.
- OEB would be responsible for demonstrating value for money for associated ratepayer increases.

# Option 3: Minister to Issue an Amending Direction to IESO to Fund the Pilots through the Conservation Fund

**Description**

- Issue an amending Minister's March 31, 2014 Direction to the IESO to fund the TOU pilots through the Conservation Fund.
- The Direction could require the IESO to work with the OEB to review competitive LDC applications, or could involve the OEB applying directly for aggregate funding under the Conservation Fund.
- The relationship between the IESO and OEB could be managed through a memorandum of understanding.

**Considerations**

- Would allow for the costs of the OEB's RPP pilots to be recovered through GAM, spreading the costs across all electricity ratepayers (transmission and distribution-connected). It is estimated that costs to an average household would be approximately $2 for one year.
- Would require IESO's Board to approve a budget increase for the Conservation Fund as the annual budget is currently $9.5M (cost of the pilots would be up to $30M). IESO would likely require additional human resources to manage the pilots, however, the pilots would benefit from IESO's in-house program expertise.
    - ENERGY staff understand that the OEB and IESO had discussed funding the RPP pilots through the Conservation Fund. However, at the time it was determined that the IESO did not have the budget or human resources to manage the projects.

# Option 3: Minister to Issue an Amending Direction to IESO to Fund the Pilots through the Conservation Fund (cont'd)

**Considerations (cont'd)**

- TOU pilots have been funded through the Conservation Fund Previously - Hydro One (to be completed May 2017) and PowerStream (complete).
- Issuing a Minister's Direction would place responsibility on the Ministry of Energy to justify the change and may require that it had demonstrated that it considered value for money for associated ratepayer increases, which it does not have sufficient evidence to demonstrate at this time.
  - The OEB has indicated to the Ministry that it has not conducted a cost-benefit analysis on the proposed pilots.
- Following the coming into force of Bill 135 (*Energy Statute Law Amendment Act, 2016*) any prior direction issued to the IESO (or former OPA) may only be amended by the Minister until the day the first Long Tem Energy Plan (LTEP) implementation plan is approved. Any amendment following this date must proceed directly to Cabinet for approval. The process for updating the LTEP is currently underway and implementation plans prepared by the OEB and IESO could be approved in Spring 2017.

## Next Steps

- Seek direction on preferred approach.
- If there is a desire to proceed with the OEB's proposed approach:
    - A decision is required from the Minister on whether to waive an Environmental Registry posting of the proposed Directive.